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Fiscal Framework of Sustainable Development

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Abstract : The achievement of sustainable development—combining economic development, social development, and environmental protection—is a key challenge facing the international community. To this end, progress will beneeded in a number of different policy areas, with the right mix of policies varying from country to country. The purpose of this paper is to explore the relationships between fiscal policy—the range of the government's taxing and spending decisions—and the economic, social, and environmental aspects of sustainable development.. Fiscal policy is central to the work of the all fiscal institutions, whose mandate is to promote international monetary cooperation, the balanced growth of international trade, exchange stability, and orderly exchange arrangements. Fulfilling this mandate is the insititutions primary contribution to sustainable development. Finaly this paper discussed fiscal activities of any economic system effect on the sustainable development.

Keywords: Sustainable development, Fiscal Framework, and Institutions

1. The Terms of Sustainable Development

The concept of sustainable development is about ensuring that the costs of one generation's activities do not compromise the opportunities of future generations. It stresses the long term compatibility of the economic, social and environmental dimensions of human well-being. There are tax aspects of various significances in these three dimensions, some of which are under the primary responsibility of developing countries.

Part of economic growth in some country is achieved through policies that allow and sometimes even encourage businesses and people not to think and act in a sustainable way.

The current debate often centres on specific fiscal remedies to address sustainable development issues. From the perspective of developing counties, such measures would typically include the use of targeted taxes or tax incentives to encourage / discourage specific behaviour that affect economic, environmental or social sustainability, such as the adoption of environmental taxes; or tax incentives to attract Foreign Direct Investment; or tax incentives for continuing education. From the perspective of OECD countries, there is also a recurrent debate concerning the possible creation of new taxes in wealthy countries to collect funds that would be allocated to development projects in less developed countries (e.g. the Tobin tax)

Sustainable development has three pillars—economic development, social development, and environmental protection.1 It entails ". . . balancing the economic, social, and environmental objectives of society . . . integrating them wherever possible through mutually supportive policies and practices and making trade-offs where (this) is not possible. This includes, in particular, taking into account the impact of present decisions on the options of future generations."2 In September 2000, the member states of the United Nations underscored the importance of sustainable development by re-affirming the Millennium Development Goals (MDGs), a set of time-bound targets for improving human development along several important dimensions. Fiscal policy—the range of the government's taxing and spending decisions—has important effects on all aspects of sustainable development: economic, social, and environmental. Fiscal policy affects sustainable development through its effects on growth, the environment, and human resource development. These effects operate at both a macroeconomic level and through the myriad ways in which governments' tax and spending decisions affect incentives to work, spend, save, and invest. Fiscal policy is central to the work of the lot of fiscal institutions.

2. Revenue Composition and Growth

An efficient and fair tax system is an important component of a growth strategy. While foreign aid can make an important contribution, the main source of finance for a country's public expenditure must be its own tax revenue. This requires an effective tax administration and a tax policy that minimizes distortions to ensure that the best use is made of resources across the economy. To minimize distortions, tax systems should avoid excessive complexity, focusing on taxing a broad range of goods and services at relatively uniform rates. Income taxation also has a role to play, although weak administrative capacity limits revenue from this source in many developing countries. Tax systems should also be sensitive to the possibility of market failure, not least in relation to the use of the environment and natural resources, and be administered in a manner that is transparent, impartial, and rules-based.

3. Expenditure Composition and Growth

Allocating a higher share of public spending to physical and human capital formation can also promote growth. Investments in physical capital, such as roads and other infrastructure, can increase the economy's productive capacity.23 Although the efficacy of such investment varies across projects and countries, recent research indicates that it may have a significant impact on economic growth. One study finds, for instance, that an increase in public investment in transportation and communication of percent of GDP is associated, on average, with an increase in annual per capita GDP growth of as much as 0.6 percentage points.

A better-educated and healthier population contributes to growth. Beyond their direct effects on well-being, improvements in the education and health status of the population also increase worker productivity. Reductions in communicable diseases such as malaria have positive spillover effects on growth by promoting tourism and foreign direct investment. Indeed, it has been estimated that each 10 percent improvement in life expectancy at birth can raise the per capita GDP growth rate by 0.4 percentage points. Although it has been difficult for economic research to quantify the magnitude of the effect of education on growth, there is nonetheless evidence that it can be significant. Economic growth, in turn, has beneficial effects on education attainment and health status, contributing to a virtuous cycle of stronger education, health, and growth. Physical and human capital spending should also be protected during fiscal adjustments. Fiscal consolidations that protect capital expenditure tend to be both more sustainable and better for growth. This finding reinforces the notion that reorienting public expenditures away from less productive spending, such as untargeted subsidies, and toward more productive spending, such as investments in physical and human capital, facilitates growth in many countries in both the short and long runs.

4. Fiscal Policy for a Sustainable Environment

In both developed and developing countries, fiscal policy has an important role to play in assuring sustainable use of natural resources and safe guarding the environment. This applies to both the tax and spending sides of the government's budget. On the former,

Taxes can be used to ensure that prices reflect the full social costs of producing goods and services. This type of pricing is most conducive for growth over the long term. The prices charged for petroleum products, for instance, need to reflect not only the cost of buying or selling them on the world market but also the social costs of the airborne pollution their usage can create and—in the absence of better-targeted instruments, such as toll charges—the congestion associated with motor vehicle use.

5. Sustainable Development and Governance

Poor governance poses a number of obstacles to human development. Corruption results in the allocation of budgetary resources for unproductive programs and inefficiencies in public spending, which reduces the effectiveness of outlays on social and poverty-reducing programs in fostering social development. Poor governance results in budgetary allocations tilted in favor of less-productive investment projects and defense-related spending and against nonwage operations and maintenance expenditures, which reduces the quality and productivity of existing infrastructure. Corruption also reduces revenue and therefore the ability of the government to mobilize the resources needed to finance critical poverty-reducing programs. Corruption results in the poor capturing a smaller share of the benefits from public spending and, more generally, in higher poverty and income inequality. Good governance is essential to ensuring that higher social spending translates into better social outcomes. Even if spending is allocated to propoor activities, public funds must be used for their intended purposes to ensure that these outlays have a positive impact on human development. As such, a sound public expenditure management (PEM) system and transparency in government operations are pivotal not only for good macroeconomic management but also for good governance. Good governance is also essential for promoting environmental sustainability. Progress in alleviating environmental problems in developing countries has been slow, often owing to ill-defined property rights regimes, corruption, and a general lack of capacity and political will at the national level.53 The IMF's general emphasis on improving the quality and transparency of spending decisions has improved the effectiveness of developing countries' environmental and other spending. In Brazil, for example, federal spending on environmental protection programs grew during an IMF-supported program.

Conclusions

The international financial institutions (IFIs) need to continue to provide financial support to countries pursuing sustainable growth and poverty-reduction strategies. In this regard, IFIs need to ensure that such support is used to promote strategies that are country-owned and developed with input from PSIA. In countries where the institutional capacity to develop and implement such strategies is weak, it is essential for IFIs to provide technical assistance, including in public expenditure management, Finally, international financial institutions should foster more extensive dialogue with member country governments and civil society to improve communication and better explain the rationale for their policies. Also National budgets are at the heart of the macroeconomic policy. They reflect choices that government have made, but more fundamentally they reflect the values and the claims made on resources by various social groups, i.e. the balance of power within a society.

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